
Meeting: EXECUTIVE / COUNCIL

Council Agenda Item:

Portfolio Area: Resources

3

Date: 20 JANUARY / 28 JANUARY 2015

FINAL COUNCIL TAX SUPPORT SCHEME 2015-16

KEY DECISION

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1. PURPOSE

- 1.1 To update Members on the local council tax support (CTS) scheme implemented from April 2014.
- 1.2 To recommend to Council a local council tax support (CTS) scheme for 2015/16.

2. RECOMMENDATIONS

- 2.1 That Council be recommended to adopt the 2015/16 CTS Scheme proposed within this report (2015/16 Scheme attached at Appendix A).
- 2.2 That a complete review of the scheme be carried out during the summer of 2015.

3. BACKGROUND

- 3.1 The Government made provision within the Local Government Finance Act 2012 to replace the national council tax benefit (CTB) scheme from 1st April 2013 with localised schemes for CTS devised by individual local authorities (LAs).
- 3.2 Prior to the introduction of the CTS scheme the Government would fully refund the Council for the eligible council tax benefit paid out. The new scheme however was a council tax discount based scheme (like single person discounts). The impact of the new scheme was to:
 - a) Reduce the taxbase and the council tax collected by SBC for itself and its preceptors.

- b) Provide councils with a grant within the Revenue Support Grant (RSG) and Non Domestic Rates (NDR) baseline funding for 90% of the discount given for CTS.
- c) Transfer the risk transferred to the preceptors if and when the caseloads increase as the grant was fixed and only funded 90% of the cost.
- d) A shortfall in grant funding would either have to be met from the Council and its preceptors or the Council needed to devise a CTS scheme that delivered the 10% saving.
- e) Working age residents of Stevenage in receipt of benefit would now pay a proportion of their council tax bill for the first time.
- f) The Council must, in the following order, consult with major precepting authorities (i.e. Hertfordshire County Council and Police and Crime Commissioner for Hertfordshire), publish a draft scheme in such manner as it thinks fit and consult such other persons as it considers are likely to have an interest in the operation of the scheme.
- g) A local CTS scheme cannot be revised for at least one financial year. The Billing Authority (SBC) must consider whether to revise or replace its scheme with another on an annual basis.
- h) Any revision to a scheme must be made by the Council by the 31 January, immediately preceding the financial year in which it is to take effect and will require consultation with those affected. Additionally, in future, consideration should be given to providing transitional protection where the support is to be reduced or removed.

3.3 CTS Scheme Attributes

3.3.1 Councils have a duty to run a local CTS scheme within their area that must contain the following:

- a) Protection for pensioner claimants from changes to the CTS scheme. The protection for pensioner claimants means the 10% reduction in grant falls disproportionately on working-age claimants unless it can be met through other arrangements.
- b) Schemes must support work incentives. The DCLG Policy Statement of Intent does not give a recommended approach to be taken, but indicates the scheme should not contain features which create disincentives for claimants finding employment.

- c) Councils must ensure that appropriate consideration has been given to provide support for other vulnerable groups, including those which may require protection under other statutory provisions including the Child Poverty Act 2010, the Disabled Persons Act 1986 and the Equality Act 2010, amongst others.

3.4 **Stevenage Principles adopted for CTS Scheme**

3.4.1 In 2013 the Council agreed that the level of funding cuts which related to the pensioner group of council tax benefit claimants were not to be made at the expense of the remaining claimant population, however, any protections made to working age claimant groups would require the equivalent funding cuts to be met from the remaining unprotected working age claimants.

3.4.2 A number of options were considered:

- a) **Option one-** Replicate the current scheme, but reduce the amount of CTS paid to Working Age Claimants by 10%.
- b) **Option two -** As option one but with protection for single parent or couple with the youngest child under five years of age.
- c) **Option three -** As option one but with protection for households with a disability premium on the benefit claim.
- d) **Option four –** As option one but with protection for single parent or couple with the youngest child under five years of age households with a disability premium on the benefit claim.

3.4.3 The Executive agreed that Option one was to be the preferred option but wanted to seek views via a public consultation on the other options relating to protections as well.

3.4.4 An equalities impact assessment was undertaken prior to the schemes inception, the main conclusion reached through the assessment being that the proposed CTS Scheme would have a negative impact on everyone receiving council tax benefit, who is not of pensionable age. Everyone affected would have a reduction in the financial help they receive towards their council tax bills. This conclusion has not subsequently changed.

3.5 **The Stevenage Scheme**

3.5.1 The fixed grant from central government (90% of the CTS payment based on 2013/14) is paid to each preceptor within their individual Government settlement for RSG and NDR. When the grant was added to the 2013/14 settlement figures for all the Stevenage preceptors it was estimated to be £6,576,934. However future finance settlements have not separately identified this grant and this report has made assumptions about funding from 2014/15 onwards, based on the level of grant losses experienced by SBC and the other preceptors. In the draft report to the December Executive a 15.15% grant loss was estimated by 2014/15. Taking information from the County Council, (as the authority in receipt of the largest share of the fixed grant) estimated loss of

grant pro-rata would be 10.32% loss in 2014/15 rising to a 24.2% loss in 2015/16. The impact on the fixed grant is illustrated in the table below. This assumption has been used to calculate the cost of the scheme in paragraph 4.1.2.

Table 1- Estimated Loss of Grant Funding

HCC Estimated % Reduction:	2013/14	2014/15	2015/16
Assumed Council Tax support Grant	(6,576,934)	(5,898,194)	(4,983,714)
% reduction of base grant (cumm.)		-10.32%	-24.22%

- 3.5.2 To fund the 10% shortfall in grant the Stevenage scheme was a combination of changes to exemptions and discounts offered and a 8.5% liability charge to working age claimants. A number of discounts were reviewed and reduced for second homes and empty properties. This was estimated to provide income of £410,356. However the actual additional tax yield in 2013/14 was £545,283. The estimate for 2015/16 is £493,346.

Table 2- Exemptions changed 1 April 2013

Type of discount / exemption and number of existing cases	Pre 1 April 2013	1 April 2013
Class A - uninhabitable	Max. 12 month exemption – 100% discount	Max. 12 month exemption – 10% discount
Class C - Unoccupied and unfurnished	Max. 6 month exemption – 100% discount	Max. 6 month exemption – 10% discount
Second Homes	10% discount	0% discount

- 3.5.3 The level of projected income from exemption changes allowed Members to approve a reduction in the liability charge in 2013/14 (for working age claimants) from a 10% charge to 8.5%.

Table 3 – Scheme Design since 1 April 2013

	Scheme Proposal
1. Working age claimants to pay first 8.5% of Council Tax liability	8.5%
2. Estimated Council Tax collection rate	70%

- 3.5.4 The financial assumption when setting the 2014/15 scheme was that over two financial years 2013/14 (surplus) and 2014/15 (deficit) the scheme would breakeven.

3.6 Hertfordshire Schemes

3.6.1 Schemes vary in Hertfordshire, however a number of council schemes are based on a 20%-25% reduction for unprotected groups compared to Stevenage's 8.5% reduction for all working age claimants.

Council	Scheme Summary
North Herts	Currently 33.13% reduction in entitlement – (2015/16 proposal revise to 25% reduction in entitlement).
East Herts Council	8.5% no protections
Welwyn Hatfield Council	25% reduction unless in a protected group
Dacorum	25% reduction unless in a protected group (war pension, disability of claimant and dependent child under 5 in household)
Broxbourne	20% reduction unless in protected group (claiming disability benefit/premium)
Hertsmere	20% reduction unless in a protected group
Watford	Default scheme – same rules as the old council tax benefit scheme.
Three Rivers	Increased non-dependents deductions, lowered capital limit and restricted to Band D. No protection
St Albans	Default scheme – same rules as the old council tax benefit scheme.

3.6.2 A recent article in the CIPFA (PFA) magazine for November 2014 highlighted NPI research that found that only 69 councils are now charging 8.5% or less down from 113 (2014/15).

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 The Review of the Current Scheme

4.1.1 In determining whether any change was required to the current CTS scheme, a review has been undertaken of the financial assumptions which are summarised in the table overleaf and take into account the levels of grant as outlined in paragraph 3.5.1.

Table 4 – Original assumptions and estimated costs

Cost of Council Tax Support:	2013-14 Est £	2013-14 Actual £	2014-15 Est £	2015-16 Est. £
Support discount given	6,969,000	6,755,907	6,535,966	6,600,000
Cost of lower collection rate (70%)	108,878	108,203	104,680	105,706
Total Cost	7,077,878	6,864,110	6,640,646	6,705,706
Estimated Grant included in RSG *	(6,576,934)	(6,576,934)	(5,898,194)	(4,983,714)
Net cost of Council Tax Support	500,944	287,176	742,452	1,721,992
Savings from exemptions :				
Reduction in exemptions for empty properties and second homes	(410,356)	(545,283)	(492,119)	(493,346)
Deficit/(Surplus)	90,588	(258,107)	250,333	1,228,646
SBC share of deficit/(surplus)	11,704	(33,348)	32,344	158,744

* Grant assumptions based on estimated grant loss as identified in paragraph 3.5.1

4.1.2 Assuming the loss of grant as outlined in paragraph 3.5.1 there is a projected deficit on the scheme totaling £1,228,646 in 2015/16, (SBC share £158,744). In considering the viability of the current scheme income from changes to exemptions and discounts for empty properties and second homes has been used in the funding assumptions. The Collection Fund (the account where the council tax is collected and precepts paid) may generate an overall surplus in year due to a number of factors including:

- The growth in the tax base for new properties is higher than estimated.
- Reliefs given may be lower than estimated e.g. single person discounts.
- Collection rate is better than estimated.
- The level of CTS given is lower than estimated.

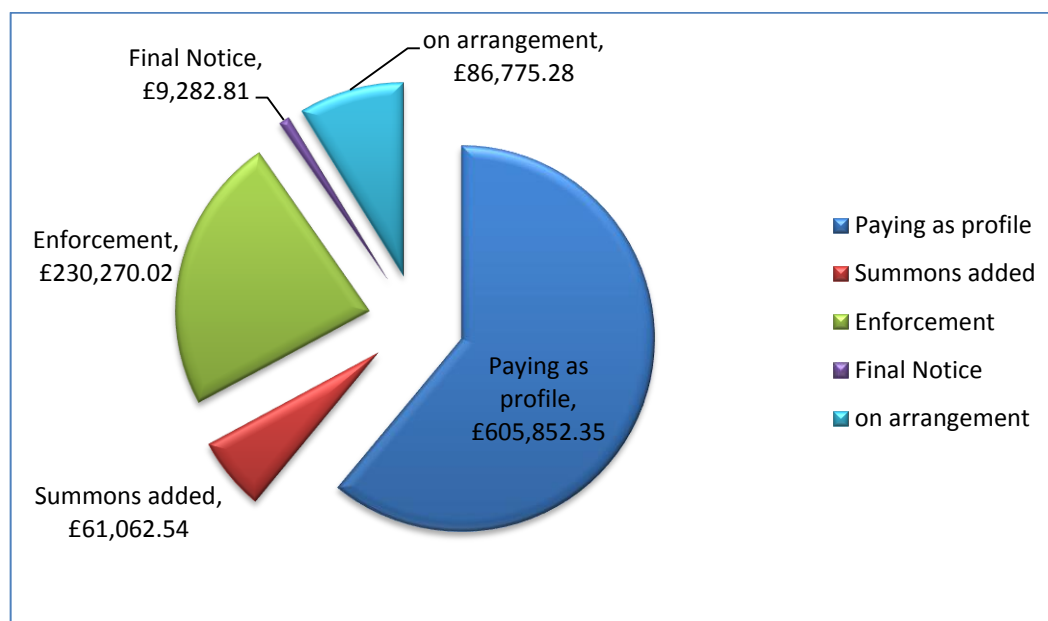
4.1.3 At the time of writing this report there is a 2014/15 projected surplus on the Collection Fund that is due to be returned pro-rata to each preceptor in 2015/16 totaling £1,098,460. This surplus would mitigate most of the projected losses on the CTS scheme. Table 5 shows the deficit to each preceptor after the Collection Fund surplus is included in the financial assumptions.

Table 5 Impact of Return of 2015/16 Collection Fund Surplus on Scheme Deficit

Estimated Deficit 2012/13-2015/16	2013-14 Act. £	2014-15 Est. £	2015-16 Est. £	Total cumm. Cost £
Net cost of Council Tax Support	287,176	742,452	1,721,992	2,751,620
Exemptions	(545,283)	(492,119)	(493,346)	(1,530,748)
Deficit/(Surplus)	(258,107)	250,333	1,228,646	1,220,872
Preceptor share of Deficit 2012/13-2015/16				
	SBC £	HCC £	HPA £	Total £
Total Loss by Preceptor (2013/14-2015/16)	157,740	936,154	126,978	1,220,872
Surplus to be returned from the Collection Fund 2015/16	(142,003)	(842,756)	(113,702)	(1,098,461)
Net loss per preceptor	15,737	93,398	13,276	122,411

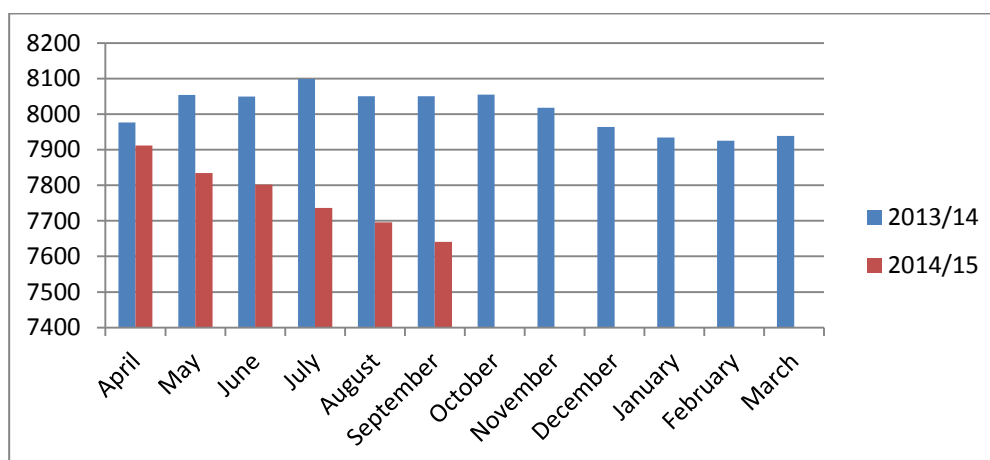
4.1.4 The cost of the scheme includes an assumption that 30% of the 8.5% liability charged to working age claimants would not be collectable (£105,706 in 2015/16) and therefore reflected in the tax base. An analysis of arrears for those working age customers in receipt of CTS shows that 69.74% are paying their council tax on profile or on arrangement, which is marginally less than the original assumption of 70%. Officers recommend a 70% collection rate for 2015/16.

Graph showing arrears for Working Age customers in receipt of CTS at 1.10.14



4.1.5 The 2014/15 original estimates assumed there would be a £6.89 Million spend on CTS, however caseload has fallen slightly and the estimated out turn for 2014/15 is £6.5Million.

The chart below shows how the total caseload has fluctuated month on month.



4.1.6 An analysis of the caseload and the ratio between working age and pensioner caseload has also been undertaken. The data below shows that the working age claimants have increased very slightly to 60.19%. The risk is that if pensioner caseload was to rise disproportionately this would reduce the amount of liability collectable (8.5%) and increase the cost of the scheme. This is not anticipated to be a risk in 2015/16.

Table 6 – Percentage of caseload between Working Age and Pensionable 2012/13 to 2014/15

Claimant Group	November 2012	November 2013	October 2014
Working Age	59.41%	59.97%	60.19%
Pensionable	40.59%	40.03%	39.81%
Total	100.00%	100.00%	100.00%

4.2 Projections for 2015/16

4.2.1 The projections for 2015/16 are based on current projected levels, £6.5Million for 2014/15 and for the 2015/16 estimates £6.6Million or an increase of only 1.5%.

4.3 Financial Implications

4.3.1 The financial implications of the scheme are shown in paragraph 4.1.1 above.

4.3.2 One of the major issues with the on-going viability of the scheme is ascertaining the level of government grant. The grant is included within each Preceptors government support settlement but without the CTS grant detailed separately it is only an assumption that it has decreased at the same

rate as the overall grant is reducing. The amount of grant loss by 2015/16 is assumed to be 24% giving an overall scheme deficit in excess of £1Million.

4.3.3 In a report on CTS by the LGA published on the 6 January, the LGA stated that they have '*continued to call for the element of settlement funding relating to CTS to be separately identified for each council, as it was in 2013/14, in order that councils can design their schemes and consult their residents each year in full possession of the facts, but this did not happen either in 2014/15 or in the provisional 2015/16 Local Government Finance Settlement*'.

4.3.4 The current financial modelling for 2015/16 does not currently assume any council tax rises which would increase the value of the 8.5% liability to those working age claimants in receipt of CTS. Currently a single person in a band C property would pay £82.46 per year, council tax increases have a disproportionate impact on net scheme costs as the grant does not increase. The collection rate may also reduce below 70% and this impact would need to be monitored and reviewed for any future years scheme. The Table below summarises the 2014/15 amounts paid by working aged claimants.

Table 7 – Amounts paid in 2014/15 by Working Age Claimants

Tax Band	Council Tax £	Single occupant per week £	Per Year £	Standard liability per week £	Per Year £
Band A	970.12	1.19	61.85	1.59	82.46
Band B	1,131.80	1.39	72.15	1.85	96.20
Band C	1,293.49	1.59	82.46	2.11	109.95
Band D	1,455.17	1.78	92.77	2.38	123.69
Band E	1,778.54	2.18	113.38	2.91	151.18
Band F	2,101.92	2.58	134.00	3.44	178.66
Band G	2,425.29	2.97	154.61	3.96	206.15

4.3.5 It is estimated that the 8.5% liability would generate £377,520 in 2015/16 before the 70% collection rate is applied. This means that after the non-collection adjustment the 2015/16 net income assumed is £264,264. This amount will vary depending on the eligibility of individuals and the proportion of working age to pensionable age claimants.

4.4 Options for Change

4.4.1 The draft 2015/16 scheme report to the December Executive had identified that there was a scheme surplus before any settlement grant losses were considered. Based on this information the Executive asked officers to consider alternative options for the 2015/16 scheme and officer deliberations are outlined in the paragraphs below.

- 4.4.2 Any change to the scheme requires consultation which can be/has been challenged as in the recent case for Haringey Council. To ensure robust consultation all tax payers must have the opportunity to reply as any change or potential reduction in the scheme, impacts on those not in receipt of CTS. Unfortunately the deadline for agreeing the scheme is 31 January 2015 and any meaningful consultation could not be completed by this date.
- 4.4.3 The revised financial information shown in paragraph 4.1.2 demonstrates there is no 'surplus' on the scheme and that potential future government grant cuts make the current scheme increasingly unaffordable for future years.
- 4.4.4 For 2015/16 the County Council and the Police Authority support the continuation of the current scheme charge of 8.5% for all working age claimants.
- 4.4.5 The Scrutiny and Overview Committee on the 9 October 2014 in preparation for designing the 2015/16 scheme were given a presentation of the current scheme as outlined in paragraph 4.1 and the officer recommendation that the current scheme (subject to up rating and legislation) remains in operation for 2015/16 was supported.
- 4.4.6 Based on the information above unfortunately it is not possible to adjust the 2015/16 scheme however it is recommended that for 2016/17 the following options are considered:
- Review of empty property exemptions considering reducing from 10% to 0% allowance
 - Impact of a 1% reduction/increase in the working age claimant liability
 - Review of protected groups
 - Impact of subsuming grant losses within the working age claimant liability.
- 4.4.7 In view of the issues outlined above in particular the insufficient time to carry out consultation before the regulatory deadline of 31 January 2015 and the substantial reduction in projected CTS grant, the Chief Financial Officer recommends that the current scheme uprated for any benefit changes is agreed for 2015/16.

4.5 Risks and assumptions considered

4.5.1 The following risks and assumptions have been identified:

- a) **Exemptions and Discounts Forecasts** - The 2015/16 projections are in line with the current scheme costs. The level of exemptions and discounts will vary each year depending on customer behavior and cannot be relied on.
- b) **Caseload Forecasts** - Actual future caseload and expenditure growth cannot be determined with accuracy although estimates based on the profiles of current expenditure and caseload has been applied to the financial modelling.
- c) **Collection Rate Forecasts** - The current estimate for collection of council tax for those in receipt of CTS is currently 70% (paragraph 4.1.4), this is in line with the estimate of 70%. The collection rate of 70% has been assumed for 2015/16, however the actual council tax collection

rate for the claimants affected by the changes may worsen as other welfare reforms are introduced which impact on low income families.

- d) **Impacts of Universal Credit** - The impact and effects of universal credit (UC) are unclear, especially for Year three and beyond. The scheme proposes that claimants in receipt of universal credit will be liable to pay the first 8.5% of their council tax liability.
- e) **Collection Fund** - Diminution of anticipated council tax receipts could result in a Collection Fund deficit position at the end of a financial year, particularly as precept payments at present have to be paid to the County Council and Police Authority at an agreed monthly rate, irrespective of council tax sums collected.
- f) **Bad Debt Provision** - A potential risk arising from the recommended changes is a drop in council tax collection rates and hence an increase in bad debt provision. Reductions to budgeted collection rates also affect the level at which the council tax base is set, this in turn is used to determine the Band D council tax level.
- g) **Failure to Agree Scheme** - If an authority fails to make a revision to or replace their scheme by 31 January 2015 then their existing scheme remains in force for the financial year 2015/16. No change is being proposed to the scheme for 2015/16, other than uprating the scheme elements in line with the DWP up rating notice. The easy read guide will be published on the Council's website as soon as it is ready and the 2015/16 scheme is appended to this report (Appendix A).
- h) **Discretionary Discounts** - The use of Section 13A discounts under the Local Government Finance Act 1992 may increase as a consequence of the recommended changes and the wider welfare reforms and will need to be met by the General Fund. As at the 31 October 2014 £61.85 had been granted on the grounds of exceptional hardship.

4.6 Legal Implications

4.6.1 The Local Government Finance (LGF) Act came into force on 31 October 2012.

4.6.2 Details as to what is set out in the LGF Act in relation to local authorities setting up CTS/ Reduction schemes are set out below.

4.6.3 **Requirements of Council Tax Support scheme** - The Local Government Finance Act 2012 prescribes the content of a CTS scheme. Under the Act a CTS scheme must state the following:

- (1) A scheme must state the classes of persons who are to be entitled to a reduction under the scheme;
- (2) A scheme must set out the reduction to which persons in each class are to be entitled, and different reductions may be set out for different classes;

- (3) A scheme must state the procedure by which a person may apply for a reduction under a scheme;
- (4) A scheme must state the procedure by which a person can make an appeal against any decision of the authority which affects (a) the person's entitled to a reduction under the scheme, or (b) the amount of any reduction to which the person is entitled;
- (5) A scheme must state the procedure by which a person can apply to the authority for a reduction.

As for stating the classes of people who are to be entitled to a reduction under a scheme, classes may be determined by reference to the following:

- (1) The income of any person liable to pay council tax on the authority in respect of a dwelling;
- (2) The capital of any such person;
- (3) The income and capital of any other person who is a resident of the dwelling;
- (4) The number of dependents of any person within paragraph (2) or (3) above;
- (5) Whether the person has made an application for the reduction.

As for stating the reduction to which persons in each class are to be entitled and if different reductions are set out for different classes, a reduction may include the following detail:

- (a) A discount calculated as a percentage of the amount which would be payable apart from the scheme;
- (b) A discount of an amount set out in the scheme or to be calculated in accordance with the scheme;
- (c) Expressed as an amount of council tax to be paid (lower than the amount which would be payable apart from the scheme) which is set out in the scheme or is to be calculated in accordance with it; or
- (d) The whole amount of council tax (so that the amount payable is nil).

The LGF Act states that for each financial year, Councils must consider whether to revise its CTS scheme or replace it with another scheme and that such decisions need to be made by 31 January in the financial year preceding that for which the revision or replacement scheme is to take effect. If the Council does not make a CTS scheme by 31 January 2015, the current scheme will be implemented for the year.

- 4.6.4 **Consultation** - The LGF Act states that the Council must consult with the County Council and Police Authority, which are precepting bodies, when preparing a CTS scheme and that thereafter, the Council must publish a draft CTS scheme and then consult with other such persons who are likely to have an interest in the operation of such a scheme. Thereafter, the Council has to adopt a CTS scheme by 31 January 2015 and publish that scheme, failing which a default scheme will be imposed on the Council. The Strategic Director (Resources) has written to the preceptors to advise them that the Council was intending to retain its current CTS scheme. At the time of writing HCC and the Police and Crime Commissioner have responded to the

consultation and are in agreement with continuing the current scheme. The 2015/16 scheme and easy guide will be published on the Council's website.

4.6.5 **Council and Scrutiny** - The LGF Act 2012 prescribes that the decision to make a CTS Scheme must be made by Council by 31 January 2015. At the Overview and Scrutiny Committee on the 17 December 2014 the draft CTS proposals 2015/16 were considered in accordance with the Budget & Policy Framework Procedures.

4.6.6 The Committee was advised that the Executive had requested officers to draw up a range of options to be considered as part of the Final scheme for 2015/16 as a result of the reported scheme surplus in the draft report, with any options being presented to the January meeting of the Executive. The Committee expressed concern that the timescale for a meaningful consultation would have been tight had significant changes been made to the scheme. It was resolved that the report be noted.

4.7 Equalities Impact

4.7.1 **Public Sector Equality Duty** - The public sector equality duty, as set out in section 149 of the 2010 Equality Act, requires the Council, when exercising its functions, to have "due regard" to the need to eliminate discrimination, harassment and victimisation and other conduct prohibited under the Act, and to advance equality of opportunity and foster good relations between those who have a "protected characteristic" and those who do not share that protected characteristic.

4.7.2 An Equality Impact Assessment (EqIA) was developed as part of setting up the CTS scheme in November 2012. This identified that the CTS scheme has an on-going adverse impact on certain groups of people who receive CTS, most notably people with disabilities and those with children under five years of age. Officers do not believe that the equalities related impact of the current scheme has materially changed since the 2012 assessment. As the recommendation is that the current scheme should continue unaltered, a further EqIA is considered unnecessary as the 2012 assessment is still valid for the purposes of this report. However, in setting the scheme the Council must have due regard to the Public Sector Equality Duty informed by that assessment and related information in this report.

4.7.3 A significant consideration in reaching that recommendation is the affordability of the scheme. Officers have explored alternative funding sources within the Council's General Fund budget, but have failed to identify any acceptable alternative budgets that could be diverted to support the scheme.

4.7.4 Steps have been put in place to help mitigate the impact on residents claiming CTS. These include the provision of additional funding to the Citizens Advice Bureau, the provision of additional resources in the Customer Service Centre and additional resources in the Revenues and Benefits Shared Service. All of which are specifically targeted at addressing the issues facing customers who are experiencing the impact of welfare reforms, including the CTS scheme.

- 4.7.5 The Strategic Director (Resources) and the Council's Welfare Reform Corporate Steering Group are monitoring the impact of the CTS on Stevenage residents and will develop further mitigation should changing circumstances require it.
- 4.7.6 To support customers with the scheme an easy guide to the CTS scheme has been made available on the website.

5. IMPLICATIONS

- 5.1 All relevant implications are included in the body of the report.

BACKGROUND PAPERS

- BD1 - Adoption of a Council Tax Support Scheme (Council 28 January 2014)
<http://www.stevenage.gov.uk/content/committees/87812/87816/87820/Council-29-January-2014-Item3.pdf>
- BD2 – Equalities Impact Assessment 2013/2014 Scheme -
<http://www.stevenage.gov.uk/content/committees/55185/55202/55205/Special-Council-23-January-2013-Item3-App-D.pdf>

APPENDICES

Appendix A – Proposed Council Tax Support Scheme 2015/2016